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UNCLAS SECTION 01 OF 03 COLOMBO 000739

SIPDIS

DEPT FOR EB A/S ANTHONY WAYNE; SA/INS FOR J. BRENNIG, N.
DEAN; PLEASE PASS TO TSUNAMI RECONSTRUCTION TASK FORCE;
TREASURY FOR C. CARNES

SENSITIVE

E.O. 12958: N/A

TAGS: [EAID](#) [ECON](#) [PGOV](#) [CE](#) [MV](#) [LTTE](#)

SUBJECT: SRI LANKAN POST-TSUNAMI RECONSTRUCTION UPDATE
(APRIL 20, 2005)

REF: A. COLOMBO 712 E. COLOMBO 704
 [B](#). COLOMBO 696 F. ENTWISTLE-HARTWICK 041905
 [C](#). COLOMBO 725 EMAIL
 [D](#). COLOMBO 697

[1](#)1. This cable is for the Tsunami IAWG meeting on April 20,
[1](#)2005.

[1](#)2. (SBU) Summary: The transition from relief to rebuilding continues to be mixed. Assistant Secretary Rocca visited affected communities in the east and found many positive examples of community rebuilding efforts. The GSL and the LTTE appear close to finalizing a joint mechanism for the delivery of assistance to the north and east. Regarding Maldives, Post continues to believe the Maldives Government National Fund is the best mechanism for channeling USG assistance. UN sources have informed us that Erskine Bowles may come for the May 16-17 Development Forum in Kandy and that President Clinton may visit Sri Lanka in late-May. We continue to push for GSL and private sector participation in the May 12 Private Sector conference in Washington, but its proximity to the Development Forum will dilute Sri Lankan participation. Post is concerned about the potential for numerous USG agency initiatives in the tsunami supplemental to divert funding from our key

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infrastructure projects. In particular, we believe OPIC's novel loan scheme may not be applying the appropriate solution to the problem of access to capital for small and medium sized enterprises (SME) here. End Summary

USAID Field Visits

[1](#)3. (U) Over the past week, two USAID teams have returned from field visits (Ref B and C) where they found mixed evidence of progress on the transition from relief to rebuilding. While USAID NGO partners are largely able to move ahead with projects, it remains at a measured pace, with land allocation and materials supply posing the main obstacles.

A/S Rocca Visit

[1](#)4. (SBU) Assistant Secretary Rocca, Ambassador and USAID Director visited the east on April 19 and met with USAID-funded transitional housing project reps and USAID Office of Transition Initiative (OTI) program reps. During a subsequent press event, A/S Rocca commented on the many positive developments that were evident, but that were punctuated by clear challenges, including progress due to land allocation problems (much more pronounced in the east) and a shortage of building materials and skilled labor.

[1](#)5. (SBU) During a breakfast meeting with Rocca on April 20, members of the American business community noted that their efforts to sponsor rebuilding projects have been hampered by "high administrative costs" imposed by NGOs. USAID believes this concern may stem from a misunderstanding and a representative from USAID's Global Development Alliance plans to meet with individual US companies to assist in matching companies with NGOs and projects.

Norwegian Brokered Aid Delivery Mechanism for North-East

[1](#)6. (SBU) We will report septel on Norwegian Special Envoy Eric Solheim's visit, but early indications from his visit are that the progress on a joint mechanism between the LTTE and the GSL for the delivery of assistance to the north and east has been positive. Nonetheless, the GSL is unlikely to move forward prior to May 1, in order to avoid giving its Marxist/Nationalist governing "ally", the Janatha Vimukthi Peramuna (JVP - which staunchly opposes any form of cooperation with the LTTE), fodder for its May day celebrations and speeches.

Maldives

17. (U) As reported in ref A, Ambassador visited Maldives April 7-8 (Refs D and E) and found continuing high-level commitment to a transparent and efficient rebuilding process. Ambassador was assured that the Government of the Republic of Maldives (GORM) would work with the USG to coordinate any potential donations through its national fund mechanism. Post has provided additional input (Ref F) on the fund option. We continue to believe the National Fund presents the best channel for USG funds to Maldives.

Problem Areas

18. (SBU) As mentioned in Ref A, we continue to work with the GSL to resolve our ongoing dispute over value added tax (VAT) payments by USAID contractors. The GSL has deemed "illegal" a long-standing solution of providing exemption letters to contractors and prefers to discuss a reimbursement mechanism. Senior GSL officials have indicated this is a result of pressure of IFIs to bolster GSL accounting procedures and tighten its revenue collection mechanisms.

19. (SBU) While we have had fewer reports of customs clearance problems over the past two weeks, we are concerned that next week's (April 26) expiration of the period for duty-free entry of certain relief items will lead to a fresh spate of calls and requests for assistance. We will try to pre-empt this process somewhat, by working with the Ministry of Finance and the Customs Department to find a mechanism for resolving disputes.

Meetings and Conferences

10. (SBU) To update on the meetings and conferences discussed in Ref A:

--Sri Lanka Development Forum on May 16 and 17 in Kandy: we have heard from UN sources that President Clinton will not attend, but that Erskine Bowles might. We have also heard that Clinton may come to Sri Lanka, as part of a larger regional trip, in "late-May."

--Asia Society et al Private Sector Forum: We continue to press the GSL and TAFREN to send representatives to the May 12 conference, but GSL participation will be sparse as a result of the proximity to the development forum. We are encouraging the GSL to send several senior private sector representatives. Maldivian participation is also extremely important.

--"Big Three (TAFREN, TAFOR and FinMin) Meeting: a new bi-weekly meeting mechanism is supposed to begin this week. We have yet to get confirmation of the meeting time though, and are checking to see if the commitment to hold this meeting is firm.

Other USG Agency Initiatives

11. (SBU) While post looks forward to the outcome of the President's supplemental request, we remain concerned about the plethora of USG-sponsored initiatives under discussion and the unintended consequence that their adoption could divert funding from our signature infrastructure and planned reconstruction activities. To cite one example, we continue to hear about OPIC's novel funding initiative to leverage USG funds against private sector donations and provide access to credit for SMEs.

12. (SBU) We applaud this kind of effort to link USG and private sector resources, but have the following concerns about OPIC's plan:

--Access to capital for SMEs in Sri Lanka has not typically been limited as a result of lack of funds, but rather an unwillingness by banks to assume risk in lending.

--OPIC plans to have the local bank partners assume the risk of the loans, but will also insist that loans be lent at below market rates. We believe this could potentially paralyze lenders - much as the Central Bank's initial infusion of liquidity into the banking system was not lent, as Banks insisted on seeking collateral and documentation from borrowers who had just lost everything in the tsunami.

13. (SBU) We look forward to hearing more from OPIC about their idea, and would suggest that perhaps a discussion with representatives of the banking community and the Central Bank about potential capacity building programs for loan analysis and risk mitigation or possible loan guarantee mechanisms might be a better starting point for OPIC's initiative.

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